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SCOTCH BANKING.

"HERE stands Theory, a scroll in her hand, full of deep and mysterious combinations of figures, the least failure in which may alter the result entirely, and which you must take on trust; for who is expected to go through and check them? There lies before you a Practical System, successful for upwards of a century. The one allures you with promises, the other appeals to the miracles wrought on your behalf. The one shows you provinces the wealth of which has been reaped under her management; the other a problem which has never been practically solved. Here you have a pamphlet, there a fishing town; here the long continued prosperity of a nation, and there the opinion of a professor of economics that in such circumstances she ought not by true principles to have prospered at all." This anticipation of the historical method was made in 1826 by Sir Walter Scott, who, under the guise of Sir Malachi Malagrowther, took the lead in preserving for Scotland one of the most essential parts of her banking system, namely, the One Pound Note.[1]

In the space to which this paper is necessarily limited it is, of course, impossible to trace historically the growth of Scottish banking through all its changes and vicissitudes; at the same

[1] I have to express my special indebtedness in this paper to the work by Mr. WILLIAM GRAHAM, entitled: *The One Pound Note in the Rise and Progress of Banking in Scotland and its Adaptability to England.* Edinburgh, 1886. This is one of the best historical studies with which I am acquainted. The quotation from Scott is borrowed from p. 263, *op. cit.*

time, however, the opinion must be firmly stated that Scottish banking as it is cannot be appreciated without considering it as it was; it is, more than any other existing system, the result of continuous development, and owes less than any to the direct interference of the legislature. Accordingly, I shall try to give in outline the leading principles from its historical standpoint, adjusting the emphasis in proportion to their importance at the present time.

The Bank of Scotland was founded in 1695, with a joint stock of twelve hundred thousand pounds Scots, the pound Scots being, however, only one-twelfth of the pound sterling. The object of the adventurers who provided the capital was, of course, profit, and in accordance with the ideas of the times, they considered that profit was only possible through monopoly, at any rate in the first place. The desired monopoly was effected by prohibiting any other persons to set up a "company of bank into this kingdom" for a period of 21 years, and during the same time for its further encouragement no public burdens were to be imposed upon its capital. The first point of importance to notice is that on the termination of the period (1716) the monopoly was not renewed; and that, as a matter of fact, the Royal Bank, the next in order, did not begin business till 1727. Thus, especially in contrast with England, Scotland furnishes an example from the very outset of the system of freedom. The system was, of course, subject to the general principles of Scots law, but, speaking broadly, it did not receive any peculiar impress from the legislature until it was so strong that the impress was either only the confirmation of the best custom, or was superficial and formal. It is as an example of free trade in banking that the Scottish system is of peculiar interest to the student of theoretical economics.

The next point to consider is the functions performed by the old bank, as it was long styled, in the interests of the public. Every one knows the famous description by Macaulay of the state of the English coinage in 1695, "when it could hardly be said that the country possessed any (standard) measure of the

value of commodities, and when it was a mere chance whether what was called a shilling was really tenpence, sixpence or a groat." It is perhaps not so generally known that at the same time the monetary condition of Scotland was worse. Not only was the coinage bad, but the coins were very scarce. There was a real deficiency of the circulating medium, so great, indeed, as to place a restriction on the natural development of trade and production. There was very little gold, so that in large payments the bulk and weight of silver were highly inconvenient. In these circumstances, the issue of bank notes, if on anything approaching a sound basis, would obviously be a great natural benefit. Paradoxical as it may seem at first sight, bank notes, limited in number or adequately secured, may under certain conditions be a better standard of value and medium of exchange than actual coins.[1]

Now, in the original charter of the Bank of Scotland it was provided that summary execution should proceed upon bills or "ticquets upon or granted by" the bank. Thus, by law, if the notes were not paid on demand, payment could be enforced by summary diligence. As a consequence, the issues were in no sense forced, and the notes soon became very popular. We learn from John Law,[2] who, better than any other man of his time, understood the uses and abuses of early banking, that within ten years of its foundation the notes of the Bank of Scotland passed in most payments throughout the whole country. In less than the same ten years (1704), however, the bank was unable to meet its first run, owing to the insufficiency of its special reserve. Fortunately, on examination, it proved that the assets were well in excess of the liabilities if time were allowed for realization, and the notes were for the time subjected to deferred convertibility with interest.

[1] A modern instance may be given from the *Report of the Indian Currency Committee.* "It is an interesting fact that the paper rouble, being in form a promise to pay silver, is now, owing to the fall in silver, exchanged for a higher value in gold than the silver which it promises to pay." p. 27.

[2] For a defense of John Law's system of banking, so long as he carried out only his own ideas, see an essay by the present writer in *Money and Monetary Problems.*

Readers of Adam Smith's account of the Bank of Amsterdam will remember that it was long believed by the merchants that for every guilder of bank money, for which they held a receipt, there was a corresponding guilder in the bank. In Scotland, on the contrary, from the beginning the issue of notes was connected with the loan of the corresponding specie, and at the date referred to lending had been carried to such a profit that to meet notes of £50,000 the bank held only some £1,600 of silver, the great bulk of the remaining assets being quite inconvertible.[1] At this time, also, deposits were not yet received, so that the public claim on the bank was entirely based, with the exception of a few bank drafts, on the notes. Notes for one pound sterling, or twelve pounds Scots, were certainly issued in 1704 and earlier, but there were no notes of lower denomination, and the greater part were of higher value. The intensity of the demand for conversion was thus much greater than was possible in later times. It will be readily understood that the issue of notes was long considered essential to profitable banking. It was natural, then, that as the country became familiar with the notes, and as new competitive banks were founded, there should be a tendency to over-issue, especially so long as the conditions of issue were practically unfettered by law. The cumulative effects of familiarity are well illustrated by the fact that in 1825 it was reported by a bank agent that the fishermen at Wick sold their herrings at a cheaper rate for notes than they would for gold, and, before dealing, strangers who had brought gold found it desirable to change it at the bank into notes. It is obvious that such confidence in the value of bits of paper could not have been acquired unless the issues had been long considered on a sound basis. What constitutes a sound basis, however, Scotland had to learn by grievous experience under free banking. Two serious errors were made, and in each case a legislative remedy was found to be necessary. The first error lay in the extension of the principle of deferred convertibility, an expedient which had proved necessary perhaps in an emergency, being developed into a

[1] GRAHAM, *op. cit.*, p. 22.

regular system. Notes were issued with an optional clause, the option consisting at first in paying a larger sum at a later specified date, the difference being supposed to be merely the equivalent of interest. The idea of option was soon extended from the option of time to the option of the mode of payment, various commodities being substituted for specie at the option of the banks. The extension of options in time and kind was naturally accompanied by an excessive reduction in the denomination of the notes—the second vital error of early Scottish banking. To get the full advantage from deferred convertibility, the notes were lowered to the meanest capacity. An amusing skit is given by Mr. Graham[1] of a note supposed to be issued by a firm of self-styled bankers in Glasgow in 1765, the promise being to pay the bearer one penny sterling on demand, or in the option of the directors three ballads. In many cases, however, the option was in drink of various kinds, and sometimes in books.[2]

These two errors were remedied by Act of Parliament in 1765 (5 George III., c. 49). The optional clause was absolutely abolished, and the law of summary diligence, which had been either evaded by the banks or not enforced by the courts, was made explicit and definite. In this way, so far as the law was concerned, convertibility was made prompt, and the whole resources of the bank were liable. At the same time, notes under twenty shillings sterling were prohibited under a penalty of £500.

Thus the Act of 1765 marked the recognition in Scotland of two great principles in the regulation of note issues. In the first place, a sharp distinction was drawn between immediate convertibility into specie and deferred convertibility after the realization of securities of various kinds. Yet, even at the present day, in spite of the continual warnings of the experience of various nations at various times, it is sometimes maintained that a documentary reserve is amply sufficient. In the second place, it was

[1] *Ibid.*, p. 62.

[2] See *History of Banking in Scotland*, by N. W. KERR (p. 71), an excellent work, but not so detailed as Graham's.

recognized that if notes are very small, there may be an excess of issues in spite of the fact that they are nominally convertible. Considering the comparative poverty of Scotland at the time, the limit of one pound may be considered very high, and experience has shown that even with a great increase of wealth it is quite high enough. From the time when the Act of 1765 had come into full operation the notes of the recognized Scottish banks have never fallen below par.[1]

The term "recognized" in the last sentence has been used advisedly, in fault of a better, to suggest that there were in Scotland, as in other countries, banks and banks. One of the most remarkable features in the development of Scottish banking is, that in spite of its freedom from restraint, or perhaps in consequence of it, private banks succumbed to the great joint-stock banks, being finally extinguished or absorbed in 1830. There were in the last century, it is true, private bankers like Sir William Forbes who, in the conduct of banking business and in financial stability, were in the front rank, just as there were joint-stock banks, notably Douglas, Heron & Co., of Ayr, which were utterly unsound; but, on the whole, it may be said that private banking in Scotland furnished the manifestation of a vicious principle which the incorporated banks unsuccessfully discarded. This vicious principle was the preference of mercantile and financial speculation to legitimate banking business. It has already been pointed out that at first the profit of banking was derived from note issues and the capital of the shareholders, that is to say, there were no deposits. Accordingly, it was for the interest of the banks to extend their note issues, and at an early date the Bank of Scotland and the Royal Bank endeavored to establish branches in the principal towns of Scotland. Owing to the expenses of management, however, and the difficulties in communication these branches were unprofitable. Under these circumstances, a stimulus was given to the creation of private banks, or mercantile firms were induced to take up banking

[1] GRAHAM, p. 71. See, however, p. 121 for the effect of the English Bank Restriction period.

business. In some cases they issued their own notes, often under the vicious system remedied by the Act of 1765, and in other cases they issued the notes of the old banks. In either way they fulfilled some of the functions at present fulfilled by the branches of the metropolitan banks, and to a great extent they came to act as intermediaries between these banks and the public. The principal abuse of the system was that in reality they often applied the funds obtained from the old banks to speculative purposes instead of to the legitimate demands of trade. In process of time many of these bankers became directors of the great joint-stock banks, and in this way controlled still more effectually the advances made to the public, and it is said that they compelled even old customers to make application through their own banks, under pain of refusal.

So far, in this survey, the attention has been directed almost exclusively to the methods and consequences of the issues of notes. In any modern industrial society, however, that is at all well banked, the issue of notes is a comparatively small part of the business. In England, for example, owing to the original monopoly of the Bank of England, the great joint-stock banks which transact most of the banking of the country have no right of issue. It is true that in Scotland, as already indicated, and as will be shown more fully presently, the right of issue is intimately connected with other banking business, but this business could never have been developed if the banks had continued to depend solely on the capital of the shareholders and the money obtained from the public in return for notes. The chief function of modern banks is to collect all the surplus capital of the country in the form of deposits and to lend it out to the most profitable undertakings. It is in this aspect that the Scottish banks are probably the most efficient in the world, and, as before, the present condition is the result of the continuous development and extension of certain distinctive principles. The most remarkable and effective is the cash-credit system. The essence of this plan is to allow traders, farmers and others to open accounts with the bank with credit up to a certain specified

sum, on the personal security of themselves and their friends, interest, of course, being charged only on the amount drawn.[1] In this way a man of ability can obtain capital when otherwise he would be unable, and to obtain it at the cheapest rate possible under the circumstances. The curious thing is that in Scotland this cash-credit system preceded the deposit system, which, as Mr. Graham remarks, looks as if in worldly matters there might be an exception to the rule *ex nihilo nihil fit.* This "most strikingly original invention" was due to the Royal Bank in 1728, that is to say, very soon after its foundation. The solution of the paradox is to be found in the circumstances of the time. The capital of the bank was comparatively large, and from the first it issued notes, and, indeed, its first efforts were directed towards replacing the notes of its rival, the Bank of Scotland.

At the same time the field for the employment of money upon tangible security was limited, and thus the idea arose to lend on what may be called security intangible, or on personal, instead of material, capital. "This profitable business went on during the year 1728, the Bank of Scotland meanwhile looking on with envious eyes. Unfortunately, its power of attracting a share of the gains was small. The note issue was already considerable, and required some new energy to increase it, while the idea of calling up more of its capital was contrary to its traditions, as suggesting the possibility of a demand dividend, and, therefore, only to be thought of as a last resort. In this predicament, the old bank, thoroughly aroused to the necessity of a struggle for existence, behaved with remarkable astuteness, and adopted the enemy's cash-credit system in 1729; but, being then in the thick of the fight as to its notes, and apparently feeling its inability to launch the new system without extraneous aid, it at the same time took a step in advance of the Royal by receiving deposits on its treasurer's bond at the rate of five per cent. per annum, the forerunners of their deposit receipts of 1810."[2]

[1] The cash-credit system was well described by Hume in his essay on the Balance of Trade.

[2] GRAHAM, *ibid.* p. 55.

The institution of cash-credits and deposits enabled the old banks to obtain a great accession of business, but in the absence of branches this was mainly effected through the private banks. These banks themselves obtained cash-credits, and thus became still more than was shown above the intermediaries between the old banks and the public. They did not, however, perform the duties of agency very efficiently, and the wonder is that the old banks did not sooner renew the attempt to establish branches, especially as under the existing system there was a glut of capital in Edinburgh and Glasgow and great dearth in the country and country towns. At present the most striking feature of Scottish banking is the ramification of the branches throughout the length and breadth of the land.

Again, the colonial development is interesting and instructive. The lead in this extension was taken by the British Linen Co., which, for some time after its foundation (1746), was not a bank, but, as the name implies, simply a company designed to trade in linen, and, as its charter expresses it, to do everything that may conduce to the promoting and carrying on of the linen manufacture. It was principally owing to the fact that its business offered facilities for the establishment of branches and that its directors had the sense to make and take advantage of the discovery, that in process of time it became a bank pure and simple, and caused a vast extension of banking throughout Scotland. In its first year the company discounted bills and granted drafts, and in its second year began to issue notes. The right of issue was at this time unrestricted by the common law, and, in any case, the company could plead that its notes were for the benefit of the linen trade. The principal point to observe, however, is that it took the lead in establishing branches, and that these branches owed their success largely to the right of issue. It is worthy of remark that when, in 1845, the authorized issues of the various banks were limited in the way to be described presently, the British Linen Co. had the largest amount in circulation, the principal portion being one-pound notes.

As the object of this paper, on the historical side, is simply

to explain the present by the past, it seems best at this stage to explain the present connection between branches and note issues in the Scottish banking system. In the first place, however, the reader may be reminded that the attempt to abolish one-pound notes in Scotland in 1826, on the ground, as Sir Walter Scott puts it, that "because England had eaten sour grapes the Scottish teeth were to be set on edge," aroused such national hostility that it was abandoned. The second attempt to introduce uniformity of principle was somewhat more successful, and, at any rate, had important consequences. By the famous Bank Act of 1844, on which the commentaries and controversies form an enormous literature, the issues of notes in England were strictly limited. Briefly stated, the Bank of England was allowed to issue some one-pound notes on, or against, securities, but for any excess of issues it must have an exact equivalent of gold in its vaults. Thus the notes were regarded, after a certain point was reached, simply as a convenient form of currency. They were not to be used for banking purposes in the sense of extending credit operations of various kinds. At the same time, the English country banks, which had a right of issue (joint stock banks within a certain range of London had no such right), were to be allowed still to issue an amount determined by the average of their circulation in the three preceding months. This maximum amount they could not exceed, even if against their excessive issues they were to hold Bank of England notes or gold itself. The system was, as Bagehot called it, a cast-iron system. Already, as indicated above by the Act of 1826, no notes under five pounds were to be issued, and this provision was confirmed. In the Act of 1845, by which it was sought to apply the same principles to Scotland, important modifications were introduced. In the first place, warned by experience, the government made no attempt to abolish one-pound notes. To this day these notes are generally preferred to sovereigns by the mass of the people. Secondly, although the issues were restricted, an element of elasticity was introduced. As in England, only those banks which at the time issued notes were to have

the right of issue; and, as in England, the authorized amounts of issue were determined by the previous averages. So far the idea of the cast-iron system was preserved. But the privilege accorded to the Bank of England and denied to the English country banks, namely, the right to issue against gold to an unlimited extent, was also accorded to the Scottish banks and accorded, too, with a point of difference in their favor. The Scottish banks were allowed to issue notes against gold in excess of their authorized issue, the gold to be held at their principal offices, and the amount to be determined by the average *monthly* circulation. It is not necessary to quote the precise terms of the Act by which the averages are determined and notified. At present it is sufficient to state that the system has proved perfectly practicable and efficient, that is to say, according to the idea of its promoters. It might well appear, however, to those unfamiliar with effects of the plan that the privilege was of very trifling value. It might be thought that the place where the gold reserve was to be held was a matter of no importance, and that the difference between the reserve equal to the monthly average of notes in excess and. the actual use of so much gold coin was hardly appreciable. The privilege, however, small as it may seem as first sight, is the basis of most that is distinctive at the present time in Scottish banking. Taken in connection with the restriction of the right of issue to the banks exercising this right in 1846, it has appeared to give to those banks a monopoly, or, in other words, has rendered it impossible, or, what is the same thing, unprofitable, to set up a new bank in Scotland. It has also allowed the Scottish banks to set up branches in places to which, under the English system, banking could never have penetrated. The two facts are closely connected, and the principal connecting link is the one-pound note. Under this system the branches of the existing banks can hold an effective reserve and a sufficiency of till-money at practically a nominal cost. Until they put their notes into circulation they cost little more than the paper and printing. When they do put the notes into circulation they, of course, do so only for a con-

sideration of some kind. Further, the reserve is held by the central offices and is determined by the monthly average. The consequence is that in Scotland branches can be kept open at much less expense than in England. In England the great joint-stock banks, with their principal offices in London, have no right of issue, and the country banks cannot exceed a certain amount. As a consequence, every branch is obliged to use sovereigns or Bank of England notes for its till-money, and the expense acts as a prohibitive duty on the establishment of branches.

There are, however, in Scotland still some elements of expense, mostly in connection with the note issues, apart from the mere cost of production and management. For a long period most of the banks were obliged to issue their notes upon stamped paper. One consequence was that the notes remained in circulation until they were almost illegible through wear and tear and dirt. In 1853 the banks were allowed to commute the stamp duty into a fixed payment *per centum* on the amount actually in circulation. As it is, however, the notes are reissued, and not, as by the Bank of England, destroyed and replaced by new ones; and it is calculated that if the English plan were adopted the circulation of one-pound notes would not be profitable.

There are in Scotland two periods in the year at which a large increase in the circulation of the notes takes place, namely, at the "terms" in May and November, when a great many payments, such as rents, wages, etc., are to be made. It is in these times that the necessity for holding gold at the central offices against the excess of issues is most felt, and in a sense appears to be ridiculous. What happens is that the banks, in order to conform to the law, are obliged to bring gold from London, the Bank of England holding the ultimate reserve of the whole country, and as soon as the periodic drain is over the gold is returned, having never been unpacked from the boxes in which it was transmitted. The expense to the bank is, of course, relatively not of much importance, but in times of stringency this sudden drain on the Bank of England may be inconvenient,

although the cause is perfectly understood and the return of the gold in a short time certain. It must not be thought that the Scottish banks complain of this periodical display of their dependence on the Bank of England, and the expense connected with it. As a matter of fact, in normal times they habitually keep more gold (at present about one million pounds) than they are strictly compelled to do according to their issues and the probable demand. As already explained, Scottish banking, in the ordinary sense, was historically closely connected with the right to issue notes. Even now, the issue and the banking departments, to adopt the phraseology applicable to the Bank of England, are more closely connected than in most countries. Partly in consequence of this close connection and partly as the result of the common law and legislation, the security for the convertibility of the notes has always been considered of primary importance. In spite of the large proportion of the one-pound notes that security may at present be considered practically perfect. Any danger there may be in a run is not from note holders but from depositors; and the excess of gold held by the banks is of the nature of a general banking reserve, not being specially ear-marked for the notes. The convertibility of bank notes obviously depends not only on the amount of gold held in reserve but on the proportion of notes likely to be presented in the most extreme circumstances of panic. The strength of the Scottish system is mainly due to the fact that, owing to long experience, the people are so familiar with notes and so confident in their stability of value that if they happen to become afraid of the notes at one bank they would probably prefer the notes of other banks to gold itself. In order to explain this apparent paradox, reference must again be made to the historical development, and especially to a part hitherto passed over in this paper, namely, the old established practice of note-exchanges. The Edinburgh banks began the system of exchanges about the middle of the last century, and in the course of time compelled the country banks to adopt it also. The good effects of the system soon received a remark-

able illustration. The famous Ayr bank—Douglas, Heron & Co.—which adopted the most reckless methods of lending, amongst other devices, threw into circulation large masses of notes. Owing, however, to the system of exchanges, those notes were promptly returned by the other banks, and payment must be made under the penalty of insolvency. The consequence was that the Ayr bank was obliged to use all its credit to raise funds in London, and on the outbreak of the panic of 1772 it at once felt the shock. By the Act of 1765 it was compelled to pay its notes on demand, and by the system of exchanges the notes were returned as fast as they were issued when the actual channels of circulation had been filled. It is worth recording that almost from the beginning the system was used by each bank, not merely for its own protection, but for the safety of the public. Thus, when the Ayr bank was compelled to stop payment, the Bank of Scotland and the Royal Bank undertook to pay all the notes of the bankrupt firm. The same responsibility was undertaken by the other banks on the failure of a western bank in 1857 and of a City of Glasgow bank in 1878. This mutual responsibility for note issues, now extending over nearly a century and a half, has given to the Scottish notes a stability of value that is not excelled by those of the Bank of England.[1] In recent years the system has been strengthened and practically perfected through the adoption of daily exchanges. The fundamental importance of the absolute security of the notes has been recognized by excluding them from the operation of the principle of limited liability, which otherwise is now applicable to all the Scottish banks.

The adoption of limited liability under the Companies Acts by the younger banks, after the failure of the City of Glasgow, has practically placed all the Scottish banks on the same footing. There are at present in Scotland ten banks which may be nominally divided into three classes; the differences, however, are, to all intents and purposes, historical survivals.[2] The first class

[1] It is worth observing that neither Bank of England notes nor notes of the Scottish banks are legal tender in Scotland.

[2] Cf. KERR, *op. cit.*, p. 7.

consists of three chartered banks, in which the liability of the shareholders is assumed to have been always limited by the terms of the charter. These are the Bank of Scotland, the Royal and the British Linen. The second class consists of two chartered banks, formerly unlimited, but now limited by the Act of 1879, namely, the Commercial and the National. The five remaining banks are now incorporated and limited under the Companies Acts, 1862 to 1880. All these banks practically do the same business and have the same privileges. The amount of notes allowed by the Act of 1845 varies in the different cases, and the older banks are not obliged to proclaim publicly the limitation of their liability. The effect of these differences is, however, very slight.

Apart from the issue of notes, all the banks perform the business that is commonly classed under banking. Most of the distinctive and peculiar features have been already indicated, *e. g.*, the cash credits, the deposit receipts and the note exchanges. It is fully recognized that all advances must be on securities that can be readily realized without loss. The experience of the City of Glasgow still bears fruit, not only as regards the responsibility of directors, but as regards the nature of investments. To describe more in detail the nature of the ordinary banking transactions would involve an account of much that is common to all the highly developed nations. In conclusion, however, one or two differential points may be noticed. In certain matters the banks, in spite of their keen competition, otherwise take common action. Thus, they fix the rate of interest allowed on deposits at a uniform rate, and the rate is determined by the rate of the Bank of England. Until recently—October 1, 1892—the banks allowed interest on current accounts, at first calculated daily and, later, on a monthly average of the balances. The fall in the rate of interest on banking securities, coupled with the fact that it was no longer necessary to attract business, led to the abandonment of the practice. The Scottish banks adapt themselves more than most banks to the needs of small customers, whether private people or retail traders. They

do not object to checks for small amounts, and they grant overdrafts and cash credits on the same scale. *Per contra*, however, the great merchants complain that they can obtain accommodation cheaper in London than at home, and that the Scottish banks, through their London agencies, lend it at a lower rate to English merchants than they will accept in Scotland. It is impossible for an outsider to express an opinion on the reality of this grievance. The conjecture may be hazarded that the banks could justify their conduct so far as it is as alleged by the general nature of their business as a whole; they may, for example, gain more indirectly than they lose directly through their London connections.

Finally, a fact may be mentioned which shows, in a striking way, the effect of the historical development which has been the guiding thread in this brief account of a complex system. The Edinburgh banks were all established before the others, and they transact seventy *per centum* of the entire banking business of Scotland. The Glasgow banks conduct twenty-three *per centum*, and the provincial banks seven *per centum*. Having regard only to the relative wealth and population, it might have been expected that the proportion for Glasgow and Edinburgh would have been reversed. This fact also calls attention to the efficiency of the branch system, and to the truly national character of the banks. It should never be forgotten that this effect is principally due, not to the action of the central authority, but to that freedom of action and freedom of movement of which the great Scottish economist is the chief exponent.[1]

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[1] At the same time it should be remembered that Adam Smith by no means approved of absolutely free banking. He wrote about the time of the Ayr failure.